Perpetual Energy Inc. Announces Resolution Of The Sequoia Litigation, Repayment Of Its Second Lien Term Loan And Early Redemption Of Its Senior Secured Notes

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CALGARY, March 22, 2024 - (TSX: PMT) - Perpetual Energy Inc. ("Perpetual", or the "Company") is pleased to announce the resolution of the previously announced Sequoia litigation, repayment of its existing $2.7 million second lien term loan, (the "Term Loan") and the early redemption of its secured third lien senior notes, with the opportunity for noteholders to elect to continue to hold such notes subject to certain amendments.

Resolution of Sequoia Litigation

On August 3, 2018, Perpetual received a Statement of Claim that was filed by PricewaterhouseCoopers Inc., LIT in its capacity as trustee in bankruptcy (the "Trustee") of Sequoia Resources Corp. ("Sequoia"), with the Alberta Court of King's Bench (the "Court"), against Perpetual (the "Sequoia Litigation"). The Claim related to a transaction when, on October 1, 2016, Perpetual closed the disposition of shallow conventional natural gas assets in Eastern Alberta (the "Sequoia Disposition").

After several years of litigation, Perpetual has entered into an agreement (the "Settlement Agreement") with the Trustee to resolve the Sequoia Litigation without any party admitting liability, wrongdoing or violation of law, regulations, public policy or fiduciary duties. A Special Committee of Perpetual's Board of Directors has determined that bringing closure to this long-standing contested litigation is in the best interests of all of Perpetual's stakeholders.

Pursuant to the Settlement Agreement, and subject to Court approval, the Company will make an aggregate payment of $30 million (the "Settlement Principal") spread out over several years, consisting of an initial payment of $10 million, and annual installments of $3.75 million until the total amount of the Settlement Principal is paid. Subject to the payment of all amounts under the Settlement Agreement, interest prior to March 27, 2026 will accrue and be forgiven. As of March 28, 2026, interest will accrue and be payable on the outstanding Settlement Principal at an interest rate equal to the applicable Bank of Canada prime rate on the date of payment. The Company is able to pre-pay all, or any portion, of the outstanding balance of the Settlement Principal at any time without bonus or penalty.

The certainty brought by the execution of the Settlement Agreement, and subsequent Court approval, terminates what has been, and would otherwise continue to be, a lengthy litigation process and allows Perpetual to advance its business plans with significantly improved access to capital, affording the financial flexibility to pursue value enhancing opportunities. The Company and the Board of Directors are pleased to put this matter behind us and move forward to unlock the inherent value potential of its asset base.

Term Loan Repayment

To simplify its capital structure, Perpetual has fully repaid and cancelled its existing second lien term loan provided by Alberta Investment Management Corporation due December 31, 2024 in the principal amount of $2.7 million, plus all accrued and unpaid interest.

2025 Senior Notes Redemption

The Company has also provided notice for the early redemption of all of the $33.2 million aggregate principal amount of 8.75% senior secured third lien notes maturing January 23, 2025 (the "2025 Senior Notes") on April 25, 2024 (the "Redemption Date").

The redemption amount will be CDN $1,000 for each $1,000 principal amount of 2025 Senior Notes including interest paid in kind ("PIK") interest and all accrued and unpaid interest (the "Redemption Price"). In connection with this early redemption, a holder may make elect to, in lieu of receiving the Redemption Price on the Redemption Date, continue to hold their 2025 Senior Notes by agreeing to certain amendments to be made to such notes. $22.29 per $1,000 principal amount of 2025 Senior Notes, representing all accrued and unpaid interest, will be paid to 2025 Senior Notes holders on the Redemption Date who do not make such an election to continue as a noteholder. All interest on the principal amount of 2025 Senior Notes that are redeemed shall cease to accrue and be payable from and after the Redemption Date.

Holders of 2025 Senior Notes who make an irrevocable election to amend the terms of their 2025 Senior Notes are required to do so no later than two business days prior to the Redemption Date. These amendments provide the Company with continuation of committed capital and transactional flexibility including the right to convert all or a portion of the 2025 Senior Notes into common shares of the Company or other securities at its discretion at any time prior to the maturity date as well as to provide for the second

lien security which is required in connection with the resolution of the Sequoia Litigation. Entities controlled or directed by the President and Chief Executive Officer, holding $26.2 million of 2025 Senior Notes, have provided confirmation to Perpetual of their election to agree to the amended terms and to be a continuing holder of 2025 Senior Notes as amended. These entities will be treated identically to, and have the same rights and benefits as, the other holders of 2025 Senior Notes on a per security basis.

The Company's existing first lien credit facility (the "Credit Facility") has been amended to provide for these matters which includes the first lien lenders' consent to resolve the Sequoia Litigation, conditional on completion of the Senior Notes redemption and Court approval. The borrowing base under the Credit Facility remains unchanged at $30 million, with the next borrowing base redetermination date scheduled for on or before May 31, 2024. The Credit Facility and the second lien security provided in connection with the resolution of the Sequoia Litigation contains certain restrictions on any potential refinancing and cash repayment of the 2025 Senior Notes.

The 2025 Senior Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, or the securities laws of any state of the United States, and may not be offered or sold in the United States of America or any of its territories or possessions or to U.S. Persons (as defined in Regulation S under the United States Securities Act of 1933, as amended). The redemption of 2025 Senior Notes does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States of America or any of its territories or possessions.

ABOUT PERPETUAL

Perpetual is an oil and natural gas exploration, production and marketing company headquartered in Calgary, Alberta. Perpetual owns a diversified asset portfolio, including liquids-rich conventional natural gas assets in the deep basin of West Central Alberta, heavy crude oil and shallow conventional natural gas in Eastern Alberta and undeveloped bitumen leases in Northern Alberta. Additional information on Perpetual can be accessed at SEDAR+ at www.sedarplus.ca or from the Company's website at www.perpetualenergyinc.com.

The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.

FORWARD-LOOKING INFORMATION

Certain information in this news release including management's assessment of future plans and operations may constitute forward-looking information or statements (together "forward-looking information") under applicable securities laws. The forward-looking information includes, without limitation, statements with respect to: the timing, terms, structure and benefits of the early redemption of the 2025 Senior Notes; the benefits of the resolution of the Sequoia Litigation including the ability of the Company to advance its business plans with significantly improved access to capital, affording the financial flexibility to pursue value enhancing opportunities and the ability to unlock the inherent value potential of its asset base; and Perpetual's business plan.

Forward-looking information is based on current expectations, estimates and projections that involve a number of known and unknown risks, which could cause actual results to vary and in some instances to differ materially from those anticipated by Perpetual and described in the forward-looking information contained in this news release. In particular and without limitation of the foregoing, material factors or assumptions on which the forward-looking information in this news release is based include: forecast commodity prices and other pricing assumptions; forecast production volumes based on business and market conditions; foreign exchange and interest rates; near-term pricing and continued volatility of the market including inflationary pressures; accounting estimates and judgments; future use and development of technology and associated expected future results; the ability to obtain regulatory approvals; the successful and timely implementation of capital projects; ability to generate sufficient cash flow to meet current and future obligations including those under the Settlement Agreement; the ability of Perpetual to obtain and retain qualified staff and equipment in a timely and cost-efficient manner, as applicable; the retention of key properties; forecast inflation, supply chain access and other assumptions inherent in Perpetual's current guidance and estimates; climate change; severe weather events (including wild fires); the continuance of existing tax, royalty, and regulatory regimes; the accuracy of the estimates of reserves volumes; ability to access and implement technology necessary to efficiently and effectively operate assets; the ongoing and future impact of pandemics (including COVID-19); the war in Ukraine and related sanctions on commodity prices; the Israel-Hamas war; and the global economy, among others.

Undue reliance should not be placed on forward-looking information, which is not a guarantee of

performance and is subject to a number of risks or uncertainties, including without limitation those described herein and under "Risk Factors" in Perpetual's Annual Information Form and MD&A for the year ended December 31, 2022 and in other reports on file with Canadian securities regulatory authorities which may be accessed through the SEDAR+ website (www.sedarplus.ca) and at Perpetual's website (www.perpetualenergyinc.com). Readers are cautioned that the foregoing list of risk factors is not exhaustive. Forward-looking information is based on the estimates and opinions of Perpetual's management at the time the information is released, and Perpetual disclaims any intent or obligation to update publicly any such forward-looking information, whether as a result of new information, future events or otherwise, other than as expressly required by applicable securities law.

SOURCE Perpetual Energy Inc.

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